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THE PETROL OIL & GAS COMPANY, LIMITED
630 - 6th Avenue S.W.,
Calgary, Alberta, Canada T2P 0T2

FIRST CLASS



THE EDITOR
REPORT ON BUSINESS
THE GLOBE & MAIL
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TORONTO ONTARIO

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THE PETROL OIL AND GAS COMPANY LIMITED

630 SIXTH AVENUE S.W.,
CALGARY, ALBERTA, CANADA
T2P 0T2



First Half Interim Report 1976

TO THE SHAREHOLDERS

FINANCIAL

First Half 1976

Petrol's net income for the first six months of 1976 was \$561,000 (14.0¢ per share) compared with \$452,000 (11.3¢ per share) for the same period last year. Net oil and gas sales at \$1,436,000 rose by \$111,000 (8.4%), as a result of improved prices for crude oil and natural gas. Cash flow before income taxes totalled \$1,095,000 (27.4¢ per share) up 13.7% from \$963,000 (24.1¢ per share) in the same period last year.

In the second quarter of 1976, net income was \$220,000 compared with \$188,000 earned in the equivalent prior-year quarter. Net oil and gas sales amounted to \$640,000 versus \$609,000 in the equivalent 1975 period.

Second quarter and first half earnings were favourably affected by higher prices for both crude oil and natural gas; these improvements were partially offset by lower production volumes as described below.

PRODUCTION

(including royalty volumes)

	First Half	
	1976	1975
Crude oil and NGL's		
Gross barrels		
— thousands . . .	214	247
Average daily		
— barrels	1,175	1,364
Average price — \$bbl	7.82	6.45
Natural gas deliveries		
Gross mmcf	561	586
Average daily — mcf	3,084	3,238
Average price — ¢mcf	87.6	49.6

Restriction of crude oil exports to the United States by the Federal Government resulted in lower production allowables from the Company's high reserve properties in Alberta such as Simonette, and coupled with natural decline in older fields, gross crude oil production levels decreased by 13.4% during the comparative first-half periods. During the second quarters of 1976 and 1975, crude oil and natural gas liquids production totalled 98,000 and 109,000 barrels respectively.

Gross natural gas deliveries in the first six months of 1976 declined by 4.3% from the first-half 1975 level of 586 million cubic feet, however during the second quarter of 1976 and 1975 gas volumes amounted to 247 and 233 million cubic feet respectively.

EXPLORATION AND DEVELOPMENT

Canada

Of the 17 wells in which the Company participated from Jan. 1 up to June 30, 1976, 13 were exploratory wells and 4 were development wells. Of the 13 exploratory wells, 8 were gas discoveries, 2 were oil discoveries and 3 were abandoned. This was an exceptionally high rate of success for exploratory drilling. Of the 4 development wells, 3 were gas producers and 1 was a dry hole.

Decalta International Corporation

Your Company owns a 15% share interest in this corporation (D.I.C.), which holds interests in the United States and other lands. Some of the activities of this corporation are reviewed below.

United States (Onshore)

All the 7 wells in which D.I.C. participated were development wells; 2 of these were gas and condensate wells and the remaining 5 were oil wells.

United States (Offshore)

In the Texas Offshore, D.I.C. participated in a total of 12 wells. 2 wells were exploratory; 1 discovered both oil and gas and the other was a dry hole. The remaining 10 wells were development; 7 were gas wells and 3 found both oil and gas, at least two had over 200' of pay zone. The incidence of success continues to be high in this area.

Overseas

In **Bolivia**, two dry holes have been drilled and one well is still drilling. In **Guatemala** (offshore), the third attempt at drilling the Manabique location has been abandoned.

Outlook

In the next quarter, the most significant developments will be:—

- the completion of a step-out well at Obed, Alberta. The well is designed to test the Devonian D2 and D3 at a total depth of 13,500 feet. The current depth of this well (September 15th, 1976) is 12,900 feet. Because of competitive bidding on adjoining property on November 9th, 1976 no information will be released on this well until after that date. Petrol's interest is restricted to the base of the D2.
- the drilling of 30 wells in the Central Plains of Alberta, where the first six months drilling has been successful.
- the start of an important well offshore California.
- the drilling of a third well in Bolivia.
- the decision as to whether or not to drill an exploratory well in Brunei, where a structure has been located as a result of seismic work.
- the continuation of the successful program offshore Texas, in the Gulf of Mexico.

CONSOLIDATED STATEMENT OF INCOME (Unaudited)

	For the Six Months Ended June 30	
	1976	1975
Income		
Net oil and gas sales	\$1,436,000	\$1,325,000
Interest and other income . .	12,000	—
	<u>1,448,000</u>	<u>1,325,000</u>
Cash Expenses		
Production	279,000	282,000
General and administrative	56,000	53,000
Interest expense	18,000	27,000
	<u>353,000</u>	<u>362,000</u>
Cash Flow Before Income Taxes	1,095,000	963,000
Depreciation and depletion . .	258,000	258,000
Income before equity in earnings of affiliated company	837,000	705,000
Equity in earnings (loss) of affiliated company	(1,000)	(3,000)
Income before income taxes	836,000	702,000
Income taxes	275,000	250,000
Net Income	<u>\$ 561,000</u>	<u>\$ 452,000</u>
Net Income per common share	14.0¢	11.3¢

STATEMENT OF CHANGES IN FINANCIAL POSITION (Unaudited)

	For the Six Months Ended June 30	
	1976	1975
Source of Funds:		
Cash flow from operations	\$1,095,000	\$963,000
Less income taxes payable	200,000	120,000
	<u>895,000</u>	<u>843,000</u>
Application of Funds:		
Land acquisition and rentals	158,000	71,000
Geological and geophysical	23,000	15,000
Non-productive drilling . .	37,000	54,000
Productive drilling and equipment	302,000	160,000
	<u>520,000</u>	<u>300,000</u>
Repayment of production bank loan	60,000	60,000
	<u>580,000</u>	<u>360,000</u>
Increase in Working Capital . .	315,000	483,000
Working Capital (deficiency) at beginning of period . .	541,000	(267,000)
Working capital at end of period	<u>\$ 856,000</u>	<u>\$216,000</u>

The PETROL Oil and Gas Company Limited

Annual Report 1976



The PETROL Oil and Gas Company Limited

Annual Meeting

The annual meeting of the shareholders of the Company will be held at the Royal York Hotel, Toronto, Ontario on April 21, 1977 at 9:30 a.m., local time. A formal notice of the meeting together with a proxy form and information circular, is enclosed with this report.

Officers and Directors

A. H. Ross

Calgary, Alberta

President of the Company

President of Western Decalta Petroleum Limited

L. B. Gordon

Calgary, Alberta

Vice-President of the Company

Director of Western Decalta Petroleum Limited

L. G. Elhatton

Calgary, Alberta

Secretary of the Company

Secretary of Western Decalta Petroleum Limited

R. A. Robinson

Calgary, Alberta

Treasurer of the Company

Treasurer of Western Decalta Petroleum Limited

H. J. Howard

Calgary, Alberta

Retired Executive

C. S. Lee

Calgary, Alberta

Chairman of Western Decalta Petroleum Limited

F. R. Matthews, Q.C.

Calgary, Alberta

Partner of MacKimmie Matthews

Barristers and Solicitors

R. Tetrault

Calgary, Alberta

President of Alberta White Trucks (Calgary) Limited

Summary of the year 1976

	1976	1975
FINANCIAL		
Gross income	\$ 3,043,000	\$ 2,998,000
Net income	1,100,000	1,131,000
Per share — ¢	27.5	28.3
Cash flow	1,892,000	1,926,000
Per share — ¢	47.4	48.2
Working capital	1,296,000	541,000
Exploration and development . .	\$ 1,042,000	\$ 998,000
Outstanding shares	3,995,000	3,995,000
OPERATING		
Gross production (before royalty)		
Oil & NGL — barrels	429,000	510,000
Natural gas — mcf	992,000	1,112,000
Gross reserves — proven and probable additional		
Oil & NGL — gross barrels . . .	7,725,000	8,122,000
Natural gas — gross mcf	32,000,000	29,200,000
Sulphur — long tons	71,000	70,000
Land Holdings		
Gross acres	4,851,000	11,424,000
Net acres	241,000	432,000

President's Letter

Petrol's net income for 1976 was \$1,100,000 or 27.5¢ per share down \$31,000 (2.7%) from \$1,131,000 or 28.3¢ per share in 1975. Gross income was \$3,043,000, up \$45,000 (1.5%) from last year; the improvement in revenues arose primarily from higher crude oil and natural gas prices. However, the increased revenues were more than offset by higher governmental royalties and lower production levels for crude oil and associated natural gas caused mainly by the federal government's restrictions on crude oil exports.

Gross production of crude oil and natural gas liquids declined by 81,000 barrels (15.9%) to 429,000 barrels while natural gas deliveries decreased 10.8% to 992 million cubic feet.

During 1976, industry responded to positive changes in governmental energy policies primarily in Alberta and British Columbia by expanding exploration and development activities to a very high level. The greatest single incentive has been the announced federal policy to permit crude oil prices to approach world market prices and to allow natural gas prices to rise to the commodity value of crude oil.

Crude oil prices increased by \$1.05 per barrel on July 1, 1976 and by 70¢ to \$9.75 per barrel on January 1, 1977. At Toronto City Gate, domestic natural gas prices rose by 15¢ on July 1, 1976 and by 10¢ to \$1.50 per mcf on January 1, 1977. The border price of natural gas exported to the United States rose by 20¢ on September 10, 1976 and by 14¢ to \$1.94 per mcf on January 1, 1977. However, as noted in previous reports federal and provincial governments continue to absorb the largest portion of price increments for both crude oil and natural gas.

While the search for new energy supplies continues at a high level in Western Canada, the industry remains concerned with the stringent regulations pertaining to Federal lands in the frontier areas which could delay much needed exploration activity required to meet a possible Canadian energy shortage in the mid-1980's. A problem of more immediate concern however lies in the fact that producers in Alberta are having difficulty in obtaining gas sales contracts which would permit gas deliveries prior to November 1, 1978 or 1979. Restricted producer cash flows could reduce exploration activity in the near future unless some method is found to maintain producers' revenues. Both industry and governments are currently studying various methods of resolving this important problem. Fortunately, Petrol has contracted almost all of its developed gas reserves. In 1977, the Company expects to continue its active exploration and development program both in Canada and in the United States. Revenues from its interests in a natural gas exploration and development program in the offshore Texas area are expected to be reflected in Petrol's operating results early in 1978.

In September 1976, the controlling interest in Western Decalta Petroleum Limited, which owns 65% of the total outstanding shares of Petrol, was sold by Hudson Bay Mining and Smelting Co. Limited of Toronto to Wesdec Petroleum Ltd., a wholly-owned subsidiary of the Loram group of companies of Calgary. As a result of this change, Mr. H. ReKunyk of Hudson Bay resigned and was replaced as a director by Mr. L. B. Gordon of Loram.

On behalf of the Board of Directors, I would like to thank each of those persons who have contributed to the continuing progress of the Company during 1976.



March 21, 1977
Calgary, Alberta

A. H. Ross
President

Production

Crude Oil and Natural Gas Liquids

In 1976, gross production of crude oil and natural gas liquids (before deducting royalties) totalled 429,000 barrels, a decrease of 81,000 barrels (15.9%) from 1975. The lower production rate reflects primarily the Canadian Federal Government's 1975 decision to gradually reduce crude oil exports to the United States; such exports averaged 460,000 barrels per day in 1976 compared with 700,000 barrels per day in 1975. This curtailed demand results in lower production allowables from the Company's high reserve oil properties in Alberta, such as Fenn, Mitsue and Simonette. The average price received for crude oil and natural gas liquids by the Company during 1976 was \$8.32 per barrel compared with \$7.17 produced last year. Government controlled oil prices increased by \$1.05 per barrel on July 1, 1976 and by an additional 70¢ to \$9.75 per barrel on January 1, 1977.

GROSS OIL AND NGL PRODUCTION BY FIELDS

(Thousands of barrels)

	1976	1975	1974	1973	1972
ALBERTA					
Fenn	17	32	36	40	29
Mitsue	30	36	35	37	33
Pembina:					
Cadium	46	53	59	69	74
Belly River	49	55	65	57	26
Simonette	213	256	319	213	178
Swan Hills	3	4	5	4	5
Turner Valley	46	47	51	56	61
Other	10	10	9	12	14
	414	493	579	488	420
SASKATCHEWAN					
Instow	3	3	6	6	6
Other	4	5	8	7	6
	7	8	14	13	12
BRITISH COLUMBIA	1	1	1	2	2
UNITED STATES	7	8	11	13	17
	429	510	605	516	451

Natural Gas

Petrol's gross sales of natural gas (before deducting royalties) declined by 10.8% to 992 million cubic feet from 1,112 million cubic feet last year. Additional deliveries from properties placed on production during the year did not offset lower deliveries of associated gas from the Simonette oil field and reduced requirements of gas buyers in certain other Alberta fields.

Average prices received by the Company for natural gas in 1976 and 1975 were 96¢ and 65¢ per thousand cubic feet respectively. The price of natural gas at Toronto City Gate increased from \$1.25 to \$1.40 per mcf on July 1, 1976 and to \$1.50 per mcf on January 1, 1977. After deducting transportation and other costs of service, the price at the wellhead in Alberta on January 1, 1977 was approximately 94¢ per mcf. The rebate on natural gas sold into the export market amounted to an additional 25¢ per mcf in January 1977, bringing the price of natural gas to \$1.19 per mcf.

GROSS GAS PRODUCTION BY FIELDS

(Millions of Cubic Feet)

	1976	1975	1974	1973	1972
ALBERTA					
Ashmont	113	85	136	96	112
Ghost-Pine	43	24	35	37	24
Hotchkiss	39	18	—	—	—
Hussar	166	147	73	18	122
Pembina	82	63	25	27	25
Simonette	386	571	651	417	377
Turner Valley	125	154	183	202	277
Other	34	45	29	18	19
	988	1,107	1,132	815	956
BRITISH COLUMBIA					
	2	2	3	1	1
SASKATCHEWAN					
	2	3	6	7	5
UNITED STATES					
	—	—	8	17	10
	992	1,112	1,149	840	972

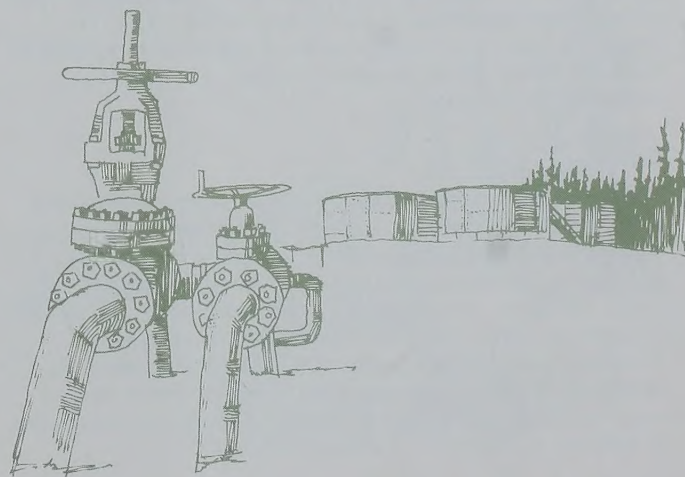
Reserves

Total proven and probable reserves of crude oil and natural gas liquids decreased by 4.9% to 7,725,000 barrels (before deducting royalties). Net additions to reserves did not equal withdrawals of 429,000 barrels during the year.

Natural gas reserves showed an overall increase of 2.8 billion cubic feet (9.6%) to a year end total of 32 billion cubic feet. The increase was due primarily to successful exploration and development drilling activities. Reserves of sulphur remained relatively constant at 71,000 long tons.

Proven and Probable Additional Reserves December 31,

	1976	1975
Oil & NGL — gross barrels	7,725,000	8,122,000
Natural gas — gross mcf	32,000,000	29,200,000
Sulphur — long tons	71,000	70,000



Exploration and Development

DECALTA INTERNATIONAL CORPORATION

Your Company owns a 15% share interest in this corporation (D.I.C.), which holds interests in the United States and other lands. Some of the activities of this corporation are reviewed below:

In the offshore Louisiana and Texas areas, D.I.C. has interests in 18 tracts, has participated in the drilling of 38 wells of which 26 had significant gas and oil zones. Five production platforms have been installed to tap these reserves and probably three to five additional platforms will be installed — each platform will have 10 to 24 wells. Initial gas production is expected early in 1978 and thereafter should generate substantial cash flow. An interest in two blocks on the Tanner Bank, offshore California was acquired in December, 1975, on which a test well is currently drilling.

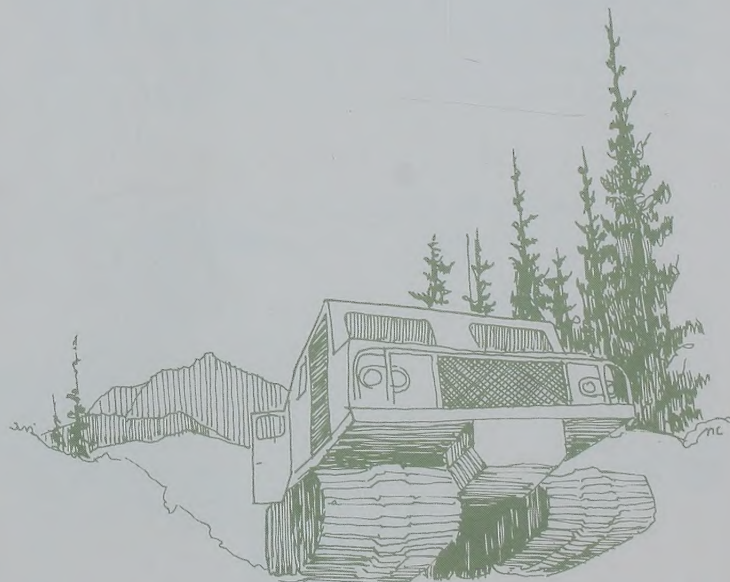
Overseas, D.I.C. has been active. In the Adriatic Sea, Italy, it holds varying interests in 620,000 acres and has made application for interests in an additional 48,000 acres. Seismic programs will be conducted over some of these lands early in 1977. In the U.K. North Sea, offshore Guatemala and onshore Indonesia the Company participated with others in the drilling of a number of wells, some of which indicated the presence of hydrocarbons, but in insufficient quantities to be of commercial value. An interest is held in 2.5 million acres in Bolivia where, despite three dry holes, there are still a number of structures remaining to be drilled.

Canada

During 1976, Petrol participated in the drilling of 46 gross wells, 38 of which were classified as exploratory and 8 as development. Exploratory drilling (primarily in Alberta) resulted in 18 gross gas wells, 3 gross oil wells and 17 gross dry holes. The 8 gross development wells resulted in 7 gas wells and 1 dry hole. The Company contributed acreage in lieu of cash toward the drilling of 10 wells by others, 4 of which were gas wells in which Petrol retains varying royalty interests until pay-out of costs and thereafter is entitled to convert to a working interest.

Acreage Holdings

At December 31, 1976, the Company owned varying interests in 4,851,000 gross acres equivalent to 241,000 net acres; comparative figures for 1975 were 11,424,000 gross acres and 432,000 net acres. During the year, Petrol surrendered acreage in offshore Newfoundland and reduced its holdings in the Northwest Territories. A summary of acreage holdings by area is shown in the statistical section of this report.



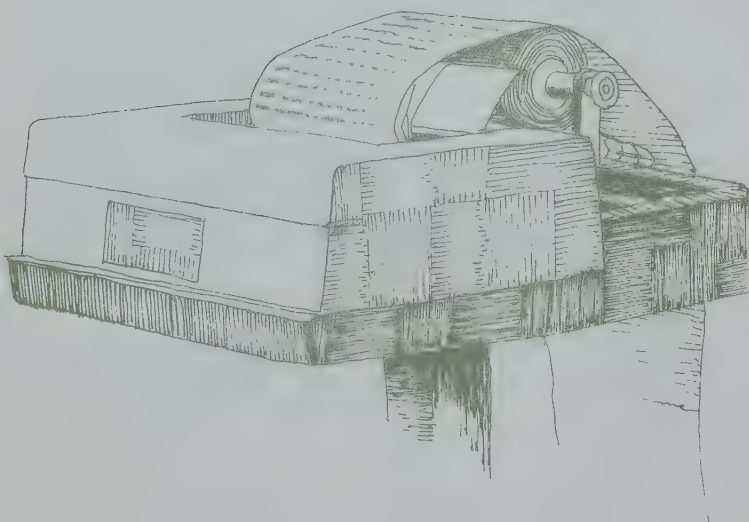
Financial

Consolidated net income in 1976 was \$1,100,000 (27.5¢ per share) as compared with \$1,131,000 in 1975 (28.3¢ per share), a decrease of \$31,000 or 2.7%.

Gross product sales totalled \$4,528,000 in 1976, up \$138,000 (3.1%) over 1975. Improved product prices of \$963,000 were partially offset by lower sales volumes of \$825,000. Royalty expenses payable, primarily to the Alberta Government, rose by \$128,000 (8.9%) to \$1,566,000 during 1976. Royalty revenue increased by \$11,400 to \$55,400 as a result of higher product prices.

Cash flow from operations after deducting current income taxes amounted to \$1,892,000 in 1976 compared with \$1,926,000 in 1975. Cash flow per share was 47.4¢ and 48.2¢ for 1976 and 1975 respectively.

Expenditures for finding, developing and acquiring reserves amounted to \$1,042,000 in 1976 compared with \$998,000 in 1975. A summary of the source and application of funds is shown in the Statement of Changes in Financial Position.



AUDITORS' REPORT

To the Shareholders of
THE PETROL OIL & GAS COMPANY, LIMITED

We have examined the consolidated balance sheet of The Petrol Oil & Gas Company, Limited as at December 31, 1976 and 1975 and the consolidated statements of income and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of The Petrol Oil & Gas Company, Limited as at December 31, 1976 and 1975, the results of their operations and the changes in their financial position for the years then ended in accordance with generally accepted accounting principles applied, after giving effect to the change in the method of accounting for exploration and development costs by an affiliated company referred to in Note 2 to the consolidated financial statements, on a consistent basis.

Calgary, Canada
February 28, 1977.

CLARKSON GORDON & CO.
Chartered Accountants.

THE PETROL OIL & GAS COMPANY, LIMITED
AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET

December 31, 1976 and 1975

ASSETS

	1976	1975
CURRENT:		
Cash	\$ 123,000	\$ 8,000
Term deposits	550,000	200,000
Accounts receivable	171,000	239,000
Due from affiliated companies ...	495,000	548,000
Prepaid expenses	11,000	11,000
	<u>1,350,000</u>	<u>1,006,000</u>
INVESTMENT IN AFFILIATED COMPANY (Note 2)	<u>1,350,000</u>	<u>1,365,000</u>
PROPERTY AND EQUIPMENT:		
Oil and gas properties less accumulated depletion (1976 — \$3,325,000; 1975 — \$2,997,000)	5,029,000	4,536,000
Plant and equipment less accumulated depreciation (1976 — \$1,564,000; 1975 — \$1,365,000)	1,770,000	1,748,000
	<u>6,799,000</u>	<u>6,284,000</u>
OTHER:		
Sundry investments at cost	2,000	2,000
	<u>\$9,501,000</u>	<u>\$8,657,000</u>

See accompanying notes.

LIABILITIES

	1976	1975
CURRENT:		
Accounts payable and accrued charges	\$ 9,000	\$ 30,000
Income taxes payable	45,000	265,000
Due to parent company		170,000
	<u>54,000</u>	<u>465,000</u>
PREPAYMENTS OF FUTURE GAS DELIVERIES	<u>25,000</u>	
PRODUCTION BANK LOAN (Note 3)	240,000	360,000
DEFERRED INCOME TAXES	<u>1,945,000</u>	<u>1,695,000</u>
SHAREHOLDERS' EQUITY:		
Capital —		
Authorized — 8,000,000 shares of no par value		
Issued — 3,995,000 shares	2,744,000	2,744,000
Retained earnings	4,493,000	3,393,000
	<u>7,237,000</u>	<u>6,137,000</u>
	<u>\$9,501,000</u>	<u>\$8,657,000</u>

CONTINGENT LIABILITIES (Note 2)

On behalf of the Board:

 
Director Director

THE PETROL OIL & GAS COMPANY, LIMITED
AND SUBSIDIARY COMPANIES

**CONSOLIDATED STATEMENT OF INCOME
AND RETAINED EARNINGS**

For the Years Ended December 31, 1976 and 1975

	1976	1975
Net oil and gas sales	\$3,018,000	\$2,996,000
Interest and other income	25,000	2,000
	<u>3,043,000</u>	<u>2,998,000</u>
Deduct:		
Production expenses	682,000	579,000
General and administrative expenses	106,000	96,000
Interest expense — Long term debt	33,000	43,000
Other		4,000
	<u>821,000</u>	<u>722,000</u>
Cash flow from operations before income taxes	2,222,000	2,276,000
Depreciation and depletion	527,000	547,000
Income before share of loss of affiliated company	1,695,000	1,729,000
Share of loss of affiliated company (Note 2)	(15,000)	(8,000)
Income before income taxes	1,680,000	1,721,000
Income taxes	<u>580,000</u>	<u>590,000</u>
Net income for the year (per share: 1976 — 27.5¢; 1975 — 28.3¢)	1,100,000	1,131,000
Retained earnings at beginning of year	3,393,000	2,262,000
Retained earnings at end of year ...	<u>\$4,493,000</u>	<u>\$3,393,000</u>

THE PETROL OIL & GAS COMPANY, LIMITED
AND SUBSIDIARY COMPANIES

**CONSOLIDATED STATEMENT OF CHANGES
IN FINANCIAL POSITION**

For the Years Ended December 31, 1976 and 1975

	1976	1975
Source of funds:		
Cash flow from operations		
before income taxes	\$2,222,000	\$2,276,000
Less current income taxes	<u>330,000</u>	<u>350,000</u>
	1,892,000	1,926,000
Prepayment of future gas deliveries	25,000	
Other		1,000
	<u>1,917,000</u>	<u>1,927,000</u>
Application of funds:		
Additions to property and equipment	1,042,000	998,000
Repayments of production bank loan	<u>120,000</u>	<u>120,000</u>
	1,162,000	1,118,000
Increase in working capital	755,000	809,000
Working capital (deficiency) at beginning of year	<u>541,000</u>	<u>(268,000)</u>
Working capital at end of year	<u>\$1,296,000</u>	<u>\$ 541,000</u>

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1976 and 1975

1. Summary of accounting policies

(a) Consolidation

The consolidated financial statements include the accounts of all subsidiaries. The excess of the unamortized cost of purchased subsidiaries over the related net asset values at dates of purchase is included in oil and gas properties.

(b) Full-cost method of accounting

The companies follow the full-cost method of accounting wherein all costs relative to the exploration for and development of oil and gas reserves, whether productive or non-productive, are capitalized and are depleted on the composite unit of production method based on estimated proven reserves of oil and gas.

(c) Depreciation

Depreciation of plant and equipment is provided at rates which are designed to amortize cost over the estimated useful lives of the assets. The companies depreciate lease and well equipment (10%) and gas plants (5%) on the straight line basis.

(d) Investment in affiliated company

The companies account for this investment as a corporate joint venture and, accordingly, the investment is carried at cost plus equity in undistributed earnings since acquisition.

2. Investment in affiliated company

The companies own a 15% equity interest in Decalta International Corporation. The remaining 85% is owned by other subsidiaries of the Company's parent. Western Decalta Petroleum Limited.

Details of the investment are:

	1976	1975
15,000 common shares	\$ 15,000	\$ 15,000
13,500 preferred shares . . .	1,350,000	1,350,000
Equity in the earnings (loss) since the date of acquisition	(15,000)	—
	<u>\$1,350,000</u>	<u>\$1,365,000</u>

The financial position of Decalta International Corporation at December 31, 1976 and 1975 is summarized as follows:

	1976	1975
Working capital (deficiency)	\$ (3,197,000)	\$ (3,195,000)
Property and equipment at cost less accumulated depreciation and depletion (1976 — \$2,629,000; 1975 — \$1,662,000)	21,487,000	18,550,000
	<u>\$18,290,000</u>	<u>\$15,355,000</u>
Long term debt	\$ 9,286,000	\$ 6,250,000
Share capital issued and outstanding		
100,000 common shares . .	100,000	100,000
90,000 preferred shares . .	9,000,000	9,000,000
Retained earnings (deficit) .	(96,000)	5,000
	<u>9,004,000</u>	<u>9,105,000</u>
	<u>\$18,290,000</u>	<u>\$15,355,000</u>

The accounting policies followed by Decalta International Corporation are essentially the same as those followed by the companies. Effective January 1, 1976 Decalta International changed its policy of accumulating costs of exploration and development in a number of cost centres to accumulating such costs in a single cost centre. Had the previous policy been followed in 1976, the companies' net income would have decreased by \$175,000 (4.4¢ per share).

The companies are contingently liable as a guarantor of bank indebtedness and natural gas development advances of Decalta International Corporation to the extent of \$1,050,000 and \$343,000 respectively.

3. Production bank loan

The production bank loan is secured by assignment of the Company's interest in certain oil and gas producing properties and is repayable out of the proceeds of production from such properties.

4. Statutory information

Remuneration of directors and senior officers charged to income during 1976 and 1975 amounted to \$2,000.

5. Anti-inflation program

Dividends paid by the Company are subject to regulation under the Anti-Inflation Act. Dividends to the Company's common shareholders during the year ending October 13, 1977 may not exceed 7.1¢ per share.

Summary of Acreage Holdings

Area	Petroleum and Natural Gas Leases		Reservations, Licenses Permits (*)		Total	
	Gross	Net	Gross	Net	Gross	Net
CANADA						
Alberta	888,900	60,000	85,500	5,100	974,400	65,100
British Columbia	50,500	3,900	103,000	10,500	153,500	14,400
Saskatchewan	44,600	3,000			44,600	3,000
Northern Canada:						
Northwest Territories	181,700	6,800	1,760,500	86,500	1,942,200	93,300
Arctic Islands			1,108,500	28,400	1,108,500	28,400
Beaufort Sea			628,000	36,700	628,000	36,700
	1,165,700	73,700	3,685,500	167,200	4,851,200	240,900

* Convertible into leases to the extent of approximately 50%.

ANALYSIS OF GROSS INCOME

(Thousands of dollars)

	1976	1975	1974	1973	1972
Crude oil	\$2,108	2,192	2,137	1,414	1,013
Natural gas liquids	166	195	156	50	48
Natural gas	683	550	289	127	113
Sulphur	6	14	1	—	—
Royalty revenue	55	45	33	20	6
Net oil and gas sales	3,018	2,996	2,616	1,611	1,180
Interest and other income	25	2	—	3	52
	\$3,043	2,998	2,616	1,614	1,232

EXPENDITURES FOR FINDING AND DEVELOPING

(Thousands of dollars)

	1976	1975	1974	1973	1972
Land rentals	\$ 288	200	184	137	142
Geological and geophysical	46	59	47	37	149
Non-productive drilling	62	265	60	133	149
Productive drilling	381	233	123	114	65
Productive equipment	265	241	304	995	442
	\$1,042	998	718	1,416	947

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LISTING

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SUBSIDIARY COMPANIES

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Petrol Mineral Enterprises Ltd.